

ECONOMIC COMMENTARY

- Dr. Francois Stofberg

YOUR WEEKLY ECONOMIC UPDATE

19 July 2022

CRYPTO REGULATION AND US INFLATION

In an interesting interview, the Deputy Governor of the South African Reserve Bank (SARB), Kuben Naidoo, provided some more guidance about cryptocurrency regulations in South Africa (SA). We have long since held that more regulation is necessary in the cryptocurrency environment, but more of the right type of regulation. Regulation should protect consumers against scandals like Mirror Trading International (MTI) that scammed thousands of people worldwide out of billions of rands. But regulations should not infringe on people's freedom, for example, by telling them what they may or may not invest in. Regulations should also not suppress innovation like it does in many countries, especially in Europe's financial industry. Usually, regulators get it wrong and impose unnecessary regulations that benefit only a handful of companies, or even individuals, at the expense of the majority.

According to Naidoo, cryptocurrency regulations could be implemented in the next 12 to 18 months, and will be aimed at protecting investors, securing cryptocurrency platforms, and identifying criminal activities, among others. If the SARB can move so rapidly and with such efficiency, it will, undoubtedly, be a boon to the industry and will place SA well ahead of the curve. A lack of sufficient regulation globally has, to a large extent, prevented the mass adoption of this superior technology that can address many of the shortcomings in the traditional financial sector, but also in other sectors. Shortcomings like the extraordinary layers of fees associated with financial transactions or even investments. Shortcomings like the delay in receiving money: Why must it take more than two days for me to receive money from someone who sent it to me from another bank? Another shortcoming is only being able to trade financial instruments between 09:00 and 17:00, and only during the workweek. What blockchain technology, like smart contracts, can also do is to bring full transparency to finances: Imagine being able to see where every single rand of every single government tender went! Blockchain technology can make this possible.

If you really think about it, the list of benefits that blockchain technologies can hold for the traditional financial sector, and beyond, seems endless. But regulation has been slow. Mostly because of the nature of the technology: There is no single champion that can innovate, lead, and set the standard like we see in the broader technology sector. When Facebook, Google, Amazon, Uber, and the like disrupted their markets, the motto was often to 'move fast and break things'. But a similar approach simply will not do in the financial industry where people's livelihoods depend on it. Also, most of the cryptocurrency world is decentralised, which is a completely foreign concept to the centralised world we live in, and which the masses have come to rely on. But regulation has also been slow because of reluctance to adopt the technology in the traditional financial sector. Blockchain technology has the potential to upend the entire industry - a change of this magnitude scares those who are still living off the rents of the prehistoric era.

In other news, inflation, once again, reached a new 40-year high of 9.1% in the United States (US). This news surprised investors who were expecting a much more moderate reading. Many were expecting the Federal Reserve's (Fed's) recent interest rate increases to start reigning in surging prices in the US. Even though higher fuel prices, driven by the war in Ukraine, is the main culprit for the persistent increase in US inflation, many now expect that the Fed will continue to increase interest rates at a rapid pace. As a result, the US dollar reached parity against the Euro, strengthening to a 20-year high against the Eurozone's currency. For this reason, the rand has also been under tremendous strain, remaining at levels above R17.00 against the dollar.

